Staff Report

To	**City Council**
Service Area	Corporate Services
Date	Wednesday, January 25, 2023
Subject	**2023 Budget Confirmation and Capital Budget Prioritization**

Recommendation

That the following recommendations be approved:

1. That the 2023 operating budget be readopted as amended at a gross expenditure budget of $508,599,380 with a 2023 property tax and payment-in-lieu of taxes levy requirement of $297,280,030 or 4.96 per cent over 2022 inclusive of the following:
    a. City service budget requirement, net of the proportionate share of assessment growth, totalling an increased net levy requirement in 2023 of $9,083,317 or 3.25 per cent inclusive of the following:
        i. Increase of $2,413,429 for in-year Council decisions related to Mayor and Council compensation, Property and Assessed Clean Energy Program, Municipal Accommodations Tax, Farmer's Market transition to 10C and costs to implement Bill 109.
        ii. Increase of $1,980,000 for new legislation requirements including increased capital transfers of $1,000,000 to fund preliminary impacts of Bill 23 and an increased benefit of $980,000 related to changing eligibility for the Ontario Municipal Employees Retirement System.
        iii. Elimination of the $500,000 transfer to the Affordable Housing reserve in response to exemptions outlined in Bill 23.
        iv. Reduction of $469,000 for phase-in of South End Community Centre and Baker District Redevelopment.
        v. Increased funding of $1,255,830 through other revenues and grants associated with the Property and Assessed Clean Energy Program and Municipal Accommodations Tax.
        vi. Additional assessment growth revenue of $594,831.
        vii. Transfers from the Tourism Municipal Accommodation Tax reserve of $171,910 to support the Municipal Accommodations Tax program.
        viii. Increased transfers from contingency reserves of $1,692,109.
    b. Rates, fees and charges totalling an increased requirement of $2,517,346 or 2.73 per cent over 2022 inclusive of the following:

i. Increased investment of $600,000 to fund preliminary impacts of Bill 23 including a $300,000 transfer to the Water Capital reserve and a $300,000 transfer to the Wastewater Capital reserve.

ii. Increased transfers from rate-specific contingency reserves of $600,000.

c. Local Boards and Shared Services budget requirement, net of the proportionate share of assessment growth, totaling an increased net levy requirement and in 2023 of $4,792,488 or 1.71 per cent inclusive of the following:

   i. Additional assessment growth revenue of $292,977.

d. Total transfers to/from Reserve and Reserve Funds in 2023 in accordance with the Reserve and Reserve Fund summary.

2. That the temporary pressures of inflation and increasing expenses resulting from supply chain challenges be offset by temporary operating surpluses experienced from tight labour markets and increased investment income, and that any shortfall be funded through the City's Tax Rate Operating Contingency reserve in 2023.

3. That the 2024-2025 operating budget forecast and the 2026 inflationary budget forecast be received for information, with a full four-year multi-year budget planned for 2024-2027.

4. That the 2023 approved capital budget be amended with a net reduction of $38,751,650 resulting in the gross 2023 capital expenditure budget of $123,155,500 and the associated operating budget required upon completion of these projects totalling $1,182,700, be readopted inclusive of the following:

   a. Funding transfers from capital reserve funds and other sources including partnerships and grants.

5. That the 2024-2031 capital forecast in the gross amount of $1,736,763,840, be received unchanged as presented in December 2021, with a full 10-year budget and forecast update to be prepared for the 2024-2027 multi-year budget.

6. That the Guelph General Hospital levy in the amount of $750,000 be budgeted for the third of six years as approved on December 3, 2019 and be funded from the Tax Rate Operating Contingency reserve.

7. That the Downtown Guelph Business Association 2023 budget with gross expenditures of $719,512, and a total levy of $679,800 be confirmed as presented on Dec 2, 2021.

Executive Summary

Purpose of Report

In December 2021, Council approved the City's first multi-year budget (MYB), covering the years 2022 and 2023. The Municipal Act requires that if a municipality passes a MYB, it must "readopt" the budget for every second or subsequent year, either in the year that the budget applies, or in the preceding year. The Budget Confirmation process, which includes reviewing, updating, and confirming the budget, is the mechanism for readoption in the City's Budget Policy.

The purpose of this report is to present the City's 2023 budget update for readoption, inclusive of all departments, and Local Boards and Shared Services (LBSS).

Key Findings

The MYB is aligned with the City's Strategic Planning Cycle. A MYB that aligns with the Strategic Plan helps to balance affordability and progress by providing predictable property tax and user rate impacts. It provides a transparent and holistic financial assessment for making policy decisions with an opportunity to review, update and confirm the work each year. The Strategic Plan's five priorities guide the budget, setting us on a sustainable path for our economy, environment and transportation while supporting an efficient workforce and united community.

Five overriding themes emerged during the development of the 2022 and 2023 budget and continued to influence the 2023 budget update. Canada's economic recovery from the pandemic was stronger than expected but lingering issues with high inflation, supply chains, and tight labour markets were the economic story of 2022, and significant legislative changes continued to impact the municipal landscape. As we embark on the new year and look ahead to the remainder of 2023, concerns are rising about future economic uncertainty. These emerging themes have further influenced the 2023 budget update.

Following a thorough staff review of the 2023 approved budget, it is recommended that the 2023 budget update be confirmed, inclusive of:

- 2022 in-year Council approvals.
- Legislative impacts including Bill 23 and Ontario Municipal Employee Retirement System (OMERS).
- Elimination of the transfer to the Affordable Housing reserve as affordable housing developments will receive exemptions from Development Charges, Parkland Dedication fees and Community Benefit Charges as a result of Bill 23.
- Expansion of Guelph-Wellington Paramedic Services resources.
- Phase-in of the operating impacts from the South End Community Centre and Baker District Redevelopment projects over an additional year, leading to reduced impacts on the 2023 budget.
- Updated assessment growth revenue.
- Increased reliance on contingency reserves as the impacts of inflation are phased in over time.
- 2023 capital budget prioritization outcomes.

The total 2023 updated operating expenditure budget is $508.6 million and is focused on responding to legislation while maintaining service delivery to our current and growing population, in addition to the previously approved City Building investments. The 2023 budget update proposed by staff does not require an adjustment to the previously approved 2023 rates, fees and charges guide.

While several adjustments have been incorporated into the operating budget, the MYB has provided the City with agility in adapting and adjusting within the approved Budget Policy to bring forward a tax levy increase of 4.96 per cent, below the previously approved rate of 5.17 per cent, and holding the previously approved user rate increases of 2.73 per cent. The 2023 updated capital budget totals $123.2 million, and primarily focuses on infrastructure renewal of our aging assets and building infrastructure to support our growing city aligned with the resources to deliver the capital budget.

Strategic Plan Alignment

The 2023 Budget Confirmation supports all the priorities of the Strategic Plan and sets the pace for implementation.

Financial Implications

The 2023 budget update translates to an increase of 4.96 per cent in payments in lieu and property taxes to be levied, which is net of updated taxation assessment growth of 1.32 per cent. Of this, the total City department net levy investment is 3.25 per cent and includes the 2023 approved budget plus legislative changes, financial impacts approved by Council in-year, and the recommended investments and budget adjustments. The LBSS budget impact totals 1.71 per cent.

From a water, wastewater, and stormwater rate perspective, the recommended 2023 budget update does not require an adjustment to the previously approved 2023 rates, equivalent to a 2.73 per cent increase over 2022. These rates remain competitive within the comparator municipal groups.

Report

Budget Overview

The MYB is aligned with the City's Strategic Planning Cycle. A MYB that aligns with the Strategic Plan helps to balance affordability and progress by providing predictable property tax and user rate impacts. It provides a transparent and holistic financial assessment for making policy decisions with an opportunity to review, update and confirm the work each year. The Strategic Plan's five priorities guide the budget, setting us on a sustainable path for our economy, environment and transportation while supporting an efficient workforce and united community.

In December 2021, Council approved the City's first MYB, covering the years 2022 and 2023. The Municipal Act requires that if a municipality passes a MYB, it must "readopt" the budget for every second or subsequent year, either in the year that the budget applies, or in the preceding year. The City's Budget Confirmation process, which includes reviewing, updating, and confirming the budget, is the mechanism for readoption in the City's Budget Policy.

In June, the City was awarded the Government Finance Officers Association's Distinguished Budget Presentation Award for the second year in a row. This year, the City won a biennial award for the 2022 and 2023 budget, demonstrating that it met internationally recognized guidelines for effective budget presentation. These guidelines assessed how well the City's budget serves as a policy document, a financial plan, an operations guide and a communications device. The 2023 budget update builds on this success and continues to strive for excellence in fiscal management through the alignment of budgeting with the strategic planning process.

In September, the City achieved the highest possible independent credit rating of AAA from Standard and Poor's (S&P) Global Ratings. The S&P report highlights the strength of the City's local economy, strong reserve balances and budgetary resilience through future economic cycles. The City's stable financial foundation and long-term revenue planning initiatives include the Long-Term Financial Framework, strong reserve balances, and responsible debt management. S&P highlights the benefits of the City's MYB as a contributor to Guelph's stable financial position. The report also highlights the capital program resourcing strategy, noting that "Guelph has also begun to reinforce its capital projects team, resulting in increased capital spending this year and lower expected deferrals in the future. It is also undertaking a capital prioritization project to better inform its future capital plans."

Five underlying themes and strategies emerged during the development of the 2022 and 2023 budget.

- Long-term financial planning provides the foundation to inform data driven decisions, prioritize investment aligned with capacity to deliver and maintain an affordable pace of service delivery.
- The COVID-19 pandemic recovery continues to create future uncertainty with changing business needs, supply chain challenges, significant inflationary concerns, and reliance on Provincial funding.
- Digital transformation is needed to become the modern and customer-centric City our community expects.
- Climate change is happening around us and the City is responding by applying a climate lens across everything we do including capital lifecycle replacements, new construction, and energy optimization initiatives.
- Not only is legislation mandating that Guelph grows, but it's also changing several of our businesses' operating landscapes; the MYB enables an agile forecast to plan and respond to these changes.

These themes continued to influence the 2023 budget update. Canada's economic recovery from the pandemic was stronger than expected but lingering issues with high inflation, supply chains, and tight labour markets were the economic story of 2022, and significant legislative changes continued to impact the municipal landscape. As we embark on the new year and look ahead to the remainder of 2023, concerns are rising about future economic uncertainty. These emerging themes have further influenced the 2023 budget update.

Inflationary Pressures

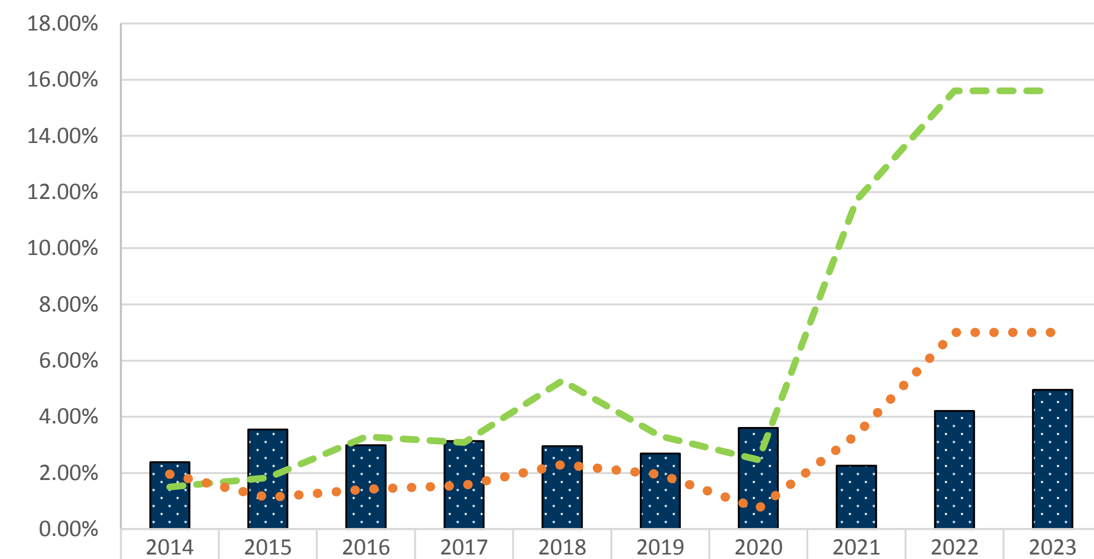
Since the early part of the pandemic, price volatility has been significantly higher than the previous 10-20 years of historically stable inflation rates. This price volatility was the result of several factors: shortage of materials, supply chain interruptions, and labour shortages in key sectors. This has caused price spikes, some of which have come back down, some of which are still impacting the overall economy.

The Consumer Price Index (CPI), which is the primary measure of inflation, hit a 30-year high of 8.1 per cent in June 2022. While inflation has decreased since then, it remains very high by historical standards.

The Non-residential Construction Price Index (NRCPI) better aligns to the City's inflationary pressures, particularly in the capital budget. This index measures the change over time in contractors' prices to construct new Industrial, Commercial, and Institutional buildings. The 2022 third quarter NRCPI was published at 15.6 per cent. This represents the second year of consecutive double-digit increases and the highest single year increase since the index became available in 1981. The increase reflects the recovery of construction prices from pandemic lows, as well as supply and demand imbalances, skilled labour shortages in some markets and rising material and fuel costs.

Historically the City's tax rate increases have been above CPI, as depicted in Figure 1. This is because annual tax rate increases include expansion of service or increased investment in City Building and Infrastructure Renewal, in addition to inflationary cost increases.

Figure 1: Historical tax increases compared to CPI and NRCPI



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Tax rate	2.38%	3.55%	2.99%	3.13%	2.95%	2.69%	3.60%	2.26%	4.21%	4.96%
NRCPI	1.5%	1.8%	3.3%	3.1%	5.3%	3.3%	2.5%	11.7%	15.6%	15.6%
CPI	2.0%	1.1%	1.4%	1.6%	2.3%	1.9%	0.7%	3.4%	7.00%	7.00%

Since 1981 there have only been two years where the NRCPI was negative (deflation), and no years with negative CPI. This is not to say that it is impossible for prices to come back to a pre-pandemic level, but it is very unlikely.

As represented in the NRCPI line in Figure 1, the largest inflationary impact is expected on the City's capital assets, both for capital renewal and operational maintenance activities. This has the potential to negatively impact the City's goal of achieving sustainable infrastructure renewal funding levels, even with increased investment, leading to an accelerating growth in the infrastructure backlog. In 2021 and 2022, Guelph's tax increases have been well below both indices.

Supply Chain Challenges

COVID-19 has caused a massive disruption in global supply chains. Many factories were closed or reduced capacity due to lockdowns and have not returned to pre-pandemic levels. In other cases, factories shifted to making different products due to changes in demand during the pandemic and there can be a long lead time to shift production back. The transportation sector has also been disrupted with lower air traffic reducing the air cargo capacity, a shortage of truck drivers to haul goods, and increased regulation and backlogs at seaports.

All of these factors combined increase the lead time, reduce the supply of many key components and has the ultimate effect of increasing prices for many of the goods that the City requires.

Competitive Labour Market

A competitive post-pandemic labour market has emerged causing labour shortages across many of the City's departments. According to Statistics Canada, Canadian unemployment was at 5.1 per cent in November 2022, with a labour force participation rate of 64.8 per cent. The unemployment rate is approximately 0.9 per cent lower than average over the past 20 years and reflects extreme pressure in the labour market, while the participation rate is nearly 1.7 per cent lower than the 20-year average, providing possible insight into one of the drivers of the tight labour market. Guelph's employment rate tends to outperform the broader Canadian rate. The Guelph Census Metropolitan Area rate is estimated to be slightly below the national level at 5.0 per cent in November 2022.

While current labour pressures are expected to continue into 2023, it is anticipated that they will begin to ease if a decline in the economy materializes in 2023.

Forecast of Economic Uncertainty

In March 2022, the Bank of Canada began one of its most aggressive series of rate increases to combat inflation. In December 2022 the Bank of Canada implemented its seventh consecutive rate increase, bringing the overnight rate from 0.25 per cent to 4.25 per cent in less than one year.

Increasing interest rates affect the City in two key areas:

1. Borrowing: Rapidly increasing rates increase borrowing costs for debt-financed projects. The City does not have any debt issues planned for 2023 but debt will be required to support growth in the medium term. If interest rates remain elevated, this will have a negative impact as it will increase the interest costs of debt and increase the overall funding required for debt-funded capital projects.
2. Investments: Rising interest rates increase the amount of investment income since the rate of return on cash and investments is directly linked to interest rates. While improved interest rates impact interest earned on cash balances almost immediately, longer-term holdings take time to mature and cannot be reinvested to take advantage of rising rates without a capital loss. Over time this will increase the amount of investment income earned on the City's capital reserves.

The interest rate increases are targeted to control inflation; however, greater impacts will be felt throughout the economy. Increasing the cost of borrowing impacts business growth and encourages consumers to save rather than spend. While the future is uncertain, it is predicted that this will result in a slowdown in the overall economy.

Emerging Legislation in the Budget

The changing legislation theme was first introduced during the development of the 2022 and 2023 budget, and has been elevated with the introductions of:

- Bill 109 which aims to address housing shortages by mandating municipalities to expedite approvals to build homes faster. This includes requiring municipalities to refund zone change and site plan application fees if decisions are not made within legislated timelines.
- Bill 23 introduces municipal housing targets based on population size and growth. The City of Guelph has been assigned a housing target of 18,000 by 2032 as part of the provincial goal to build 1.5 million homes in 10 years, slightly less than double the previously planned pace of growth. This legislation reduces the fees charged to developers including Development Charges, Parkland Dedication fees and Community Benefit Charges. Significant analysis will be required over the next several months to understand the full impacts on these key growth revenue streams, and some impacts of Bill 23 are not able to be estimated as regulations have not yet been published. In addition to lost revenue impacts, there will be staffing impacts over time as the City will have to ramp up to accommodate a higher pace of growth (for example, building inspectors, planners, project managers, and back office support functions, to name a few).

Both legislative changes are exacerbating pace and capacity issues that already exist internally as staff work to respond to these major changes without prior consultation with the province.

Risk and Mitigation Strategies

The emerging themes informing the 2023 budget update include a degree of uncertainty, and as such, pose risk to the City if left unaddressed. Staff have identified several risks, along with mitigation strategies to limit the impact to the tax levy.

The effects of inflationary pressures and supply chain challenges have been felt over the past year, both from an operating and capital perspective. The capital prioritization process was developed in response to the rising costs associated with capital projects. However, the pressures felt on the operating budget cannot be ignored. Preliminary estimates were collected from departments, approximating cost increases of 0.70 per cent of the gross operating budget related to both fleet and non-fleet fuel, medical supplies, haulage and organic processing, and the increased cost of chemicals and maintenance related to the City’s water and wastewater services. Parking and Transit revenues continue to pose a risk as the recovery from COVID impacts on these services is ongoing.

At the same time, the competitive labour market has resulted in difficulty filling vacancies at the City. Consequently, the City is projecting a significant 2022 surplus in compensation. It is expected that the pressure experienced in the labour market will carry into 2023, but will not be permanent. Adjustments to the base budget are not recommended without accompanying changes to service level expectations.

Finally, in 2022 the City is projecting a surplus in investment income, due to the rate increases imposed by the Bank of Canada. While this is good news, it is not expected that these interest rate levels will remain over the medium to long term.

Staff have proposed a strategy to deal with inflationary pressures and increasing costs resulting from supply chain challenges, by leveraging temporary operating surpluses stemming from tight labour markets and increased revenues associated with rising interest rates in 2023. Staff recommends funding any shortfall from the above mitigation strategy through the City's contingency reserves in 2023. From a rate perspective, any shortfall that transpires from the above strategy will be offset by rate-specific contingency reserves in 2023. The projected 2022 surplus will provide a source of funds to bolster the City's reserves and provide staff comfort in proposing that Council take on an elevated level of risk through this budget. This approach provides time to continue to monitor and assess the high level of uncertainty in 2023 and to develop a longer-term plan to respond to these changes in the next 2024-2027 MYB cycle if these conditions persist.

2023 City Operating Budget Update

Following a thorough staff review of the 2023 approved budget in accordance with the City's approved Budget Policy, it is recommended that the 2023 budget update be confirmed, inclusive of:

- 2022 in-year Council approvals.
- Legislative impacts, specifically Bill 23 and OMERS.
- Elimination of the transfer to the Affordable Housing reserve as affordable housing developments will receive exemptions from Development Charges, Parkland Dedication fees and Community Benefit Charges as a result of Bill 23.
- Expansion of Guelph-Wellington Paramedic Services resources.
- Reduction of the phase-in of operating impacts from South End Community Centre and Baker District Redevelopment as they are spread over an additional year.
- Updated assessment growth revenue.
- Increased reliance on contingency reserves as the impacts of inflation are phased in over time.

Attachment-1 2023 tax levy and user rate update, summarizes the investments included in the 2023 budget update, along with the funding strategies employed, aligned with the approved 2023 Budget Policy.

In-year Council Decisions

In November 2021, Council approved the transition of the Guelph Farmer's Market to 10 Carden Shared Services (10C). Although approved in 2021, the timing was post-MYB release and therefore was not considered in the approved 2023 budget. The operating budget was adjusted with a shortfall of $32 thousand which is funded through the Tax Rate Operating Contingency reserve in 2023, resulting in a net zero impact on the tax levy.

In February 2022, Council was presented with a staff report to implement a Municipal Accommodation Tax (MAT). Council approved the report and as a result the 2023 budget update includes an investment in resources which is funded through MAT revenues and a transfer from the Tourism Municipal Accommodation Tax reserve with a net zero impact on the tax levy.

Council was also presented with the Property Assessed Clean Energy Update – 2022-27 in February 2022 and approved the program. The 2023 budget update includes an investment in resources for this program which is funded through grants with a net zero impact on the tax levy.

In March 2022, Council approved an increase to City Council remuneration. This increase in compensation is recommended to be funded through the Tax Rate Operating Contingency reserve in 2023; however, this increase will be included in the 2024-2027 MYB and will require a 0.04 per cent increase to the tax levy at that time.

On November 22, Council was presented with staff analysis and recommendations related to Bill 109 and Bill 23, and approved requests to immediately fund resources and changes to the development application fee structure for Bill 109 legislation resulting in a 0.10 per cent increase to the 2023 tax levy.

Legislative Impacts

On November 28, 2022, Bill 23 received Royal Assent. A budget request is included in the 2023 budget update to begin to address the significant, negative impact that Bill 23 will have on the City's long-term financial strategy through the reductions in growth revenue streams. The proposed investment includes a $1.0 million transfer to the Growth reserve to phase-in the impacts of Bill 23. As Bill 23 exempts affordable housing projects from Development Charges, Parkland Dedication fees and Community Benefit Charges, the elimination of the $500 thousand annual transfer to the Affordable Housing reserve is recommended to offset the proposed transfer to the Growth reserve. The net impact of Bill 23 on the 2023 budget is a $500 thousand, or 0.18 per cent, increase to the tax levy rate for 2023. In addition, a $300 thousand investment has been recommended to each the Water Capital reserve and the Wastewater Capital reserve in response to Bill 23, resulting in a 0.33 per cent increase to each rate respectively. This is proposed to be funded through the rate-specific contingency reserves in 2023. Throughout 2023, staff will work to prepare a more fulsome analysis of the expected impact of Bill 23 as the regulations are released and expect to better understand the implications to support further recommendations to Council as part of the 2024-2027 MYB in late 2023.

Effective January 1, 2023, OMERS eligibility will be expanded so that all non-full-time employees may elect to join the plan at any time. The impact of this change will depend on the number of additional staff who elect to join OMERS, so staff have proposed funding this legislated change through the Compensation Contingency reserve for 2023. Staff will monitor and evaluate the actual uptake in 2023 and an appropriate adjustment will be included in the 2024-2027 MYB. A 50 per cent uptake would result in an investment of $980 thousand, or a 0.33 per cent increase to the base budget in 2024.

Other Investments and Budget Adjustments

A budget request to speed up the implementation of the Paramedics Master Plan by implementing resources originally planned for 2025 is included in the 2023 update. This request responds to the need to maintain service levels and response times as increased call volumes cannot be sustained with current resources. This request will be funded through Provincial COVID-19 grants in 2023. In the event that the grant is discontinued, the City share will be funded through the Tax Rate Operating Contingency reserve in 2023 and the County would fund 37 per cent of the cost.

The 2023 budget includes an approved strategy of phasing-in operating impacts related to two tier one capital projects, the South End Community Centre and the Baker District Redevelopment. Staff have identified an opportunity spread the investment over an additional year, alleviating the tax pressure to residents over the period of 2023 to 2025. This results in a combined tax levy reduction of 0.17 per cent in 2023.

Assessment growth revenue was projected at 1.00 percent in the approved 2022 and 2023 budget and is shared proportionately between the City and LBSS. In late 2022, assessment growth revenue was confirmed at 1.32 per cent; equivalent to revenue of $888 thousand in excess of the approved budget, or a 0.32 percent reduction to the tax rate levy in 2023.

The total 2023 updated operating expenditure budget is $508.6 million and is focused on responding to legislation while maintaining service delivery to our current and growing population, in addition to the previously approved City Building investments. The 2023 budget update proposed by staff does not require an adjustment to the previously approved 2023 rates, fees and charges guide. A number of user fee and fare reviews are underway in 2023 which will inform the 2024-2027 MYB.

While several adjustments have been incorporated into the operating budget, the MYB has provided the City with the agility to adapt and adjust within the approved Budget Policy and proposes a tax levy increase of 4.96 per cent, below the previously approved rate for 2023 of 5.17 per cent and holds to the previously approved user rate increase of 2.73 per cent.

Several investments were approved in December 2021 and included in the approved 2022 and 2023 budget as a result of Council motions and were funded on a one-time basis for 2022, including transit pilots for Affordable Bus Passes and Kids Ride Free, and funding for both The People and Information Network (volunteer police records checks) and Welcoming Streets. Should Council wish to continue these initiatives on an on-going basis, staff recommend funding these investments from the Tax Rate Operating Contingency reserve in 2023 and including them in the next 2024-2027 MYB.

2023 LBSS Agencies Operating Budgets

The City funds all or part of the operations of several LBSS that have separate governance structures and varied types of relationships with the City. These include:

- Guelph Public Library Board
- Guelph Police Service Board
- Wellington-Dufferin-Guelph Public Health

- County of Wellington Social Services and Social Housing
- The Elliott Community
- Downtown Guelph Business Association (DGBA)
- Grand River Conservation Authority (GRCA)

Council does not have direct oversight of these boards and agencies; however, City Councillors do sit as members of the board of governors for each of these entities and the City is responsible for funding their operations, in whole or in part.

The Guelph Public Library Board, Guelph Police Service Board, Wellington-Dufferin-Guelph Public Health and The Elliott Community have all confirmed that their respective Boards have approved their budgets for 2023 with no adjustments required.

The County of Wellington presented the Preliminary 2023-2032 Ten-Year Plan: Social Services (page 15) to County Social Services Committee on November 9, 2022. The preliminary plan for 2023 represents an increase of $535 thousand over the amount estimated for 2023 in last year's Ten-Year Plan from the County. The main driver of the increase is related to increased funding to support homelessness initiatives, increased contract costs within non-profit and social housing and provincial funding remaining at previous year levels for Children's Early Years and Ontario Works programs. The City has historically under budgeted for the County due to historical operating surpluses. Staff recommend no adjustment to the City's budget for Social Services, as the County is currently projecting a surplus in 2022. If the surplus materializes, City staff will recommend transferring the surplus to the Tax Rate Operating Contingency reserve to offset any deficit that may occur in 2023.

The DGBA's budget is also included for Council confirmation. This a special levy that is applied to downtown commercial properties in addition to the City's general taxation requirement and there is no change requested from what was included in the 2023 approved budget for the DGBA.

The City's contribution to the GRCA is funded through water and wastewater rates and their budget for 2023 has not yet been approved. No change has been made to the estimate provided last year for GRCA in the 2023 budget update.

Use of Reserves in the 2023 Budget Update

The City's strong fiscal position and healthy reserve balances provide Council with the ability to take on more risk through the budget process and are foundational to the success of MYB by providing the flexibility to make necessary adjustments in confirmation years. For this reason, staff are recommending the use of reserves to mitigate budget impacts for the 2023 budget update. While this means contingency reserve balances are drawn lower in the short term, there remains sufficient cash flow to respond to emergencies and address unplanned events. The 2022 year-end forecasted positive variance in the Third Quarter Budget Monitoring Report that is largely driven by the tight labour market and stronger than expected revenues in some areas will also provide a source of funds for Council to top-up the reserves to preserve the flexibility to respond to the unknown in 2023 and beyond. The proposed 2023 budget update includes reserve transfers, as follows:

- Use of reserves to offset Mayor and Council compensation increases which will be added to the base budget in 2024.

- Use of reserves to fund a portion of the in-year approved Municipal Accommodation Tax implementation, with the balance funded through the MAT.
- An increase in the annual transfer to the Growth Capital reserve fund to offset growth revenue reductions related to Bill 23 changes. In addition, in the elimination of the transfer to the Affordable Housing reserve given that affordable housing projects will now be exempt from Development Charges, Parkland Dedication, and Community Benefits Charges under Bill 23.
- Use of rate-specific contingency reserves to offset the water and wastewater rate implications related to Bill 23 impacts requiring increased capital investment to support growth.
- Use of reserves to allow time to assess the impact of expanded OMERS employee eligibility and support costs associated with responding to Bill 109 that are expected to be fully fee funded in the future after a fee study is undertaken in 2023.

The City's reserves and reserve funds continue to be managed in accordance with the City's General Reserve and Reserve Fund Policy. Staff report annually on the balance and activity of these funds in accordance with approved targets at year-end. The most recent year-end report is the 2021 Long-term Financial Statement – Reserves and Debt. At the time of this report corporate contingency reserves were at 100 per cent of target.

2024-2031 Forecast

In 2023, the next four-year MYB covering 2024–2027 will be developed in alignment with the Strategic Plan refresh expected to be approved by Council in mid-2023. As such, the operating forecasts for 2024 and 2025 reflect those presented as part of the 2022 and 2023 MYB, plus the known future year impacts of all the 2023 operating budget adjustments outlined. Further, the 2026 operating forecast is inflationary in nature, inclusive of operating impacts from capital presented in the capital forecast to Council in December 2021.

The 2024-2031 capital forecast is unchanged from that received by Council for information in December 2021. A full prioritization review, similar to the one undertaken for 2022 and 2023, will be completed for the 2024–2033 capital budget and forecast as part of the next MYB cycle and will reset the capital budget and forecast for inflation, begin to address new growth requirements under Bill 23, and pace and capacity based on available resources.

Capital Prioritization Process

In April, staff brought forward report 2022-118 Inflationary Financial Impact Strategy for Council's consideration. In response, Council delegated authority to staff until the 2024 capital budget approval to prioritize capital projects within the approved capital budget.

A holistic review of the approved 2022 and 2023 budgets was necessary to create financial capacity to deal with inflationary budget increases, including consideration of Council's previous approval of the Capital Program Resourcing Strategy in 2021.

Staff reviewed projects through multiple lenses as the planning, design, and execution of the 10-year capital plan is a very complicated, interconnected task.

The criteria that were considered as part of the prioritization process focused on enterprise risk mitigation and included:

- Infrastructure Renewal projects which address current deficiencies or risks, or to meet regulatory requirements.
- Projects which leverage time-limited grant funding.
- Projects tied to agreements or impacts with other partners or stakeholders.
- Growth-related projects which provide necessary infrastructure to a growing community.
- Projects that prove to reduce costs/save money over time subject to a sound business case.

These adjustments were consolidated across all departments and service areas and required review and sign-off from General Managers and the Executive Team. Details of the 2022 capital budget adjustments made through the prioritization process will be provided through the 2022 Year-end Budget Monitoring Report, while the 2023 capital budget adjustments are included in the 2023 City budget update.

2023 Prioritization Outcomes

The capital prioritization has resulted in a $38.8 million net decrease in the previously approved 2023 capital budget. The 2023 capital budget confirmation after the prioritization is $123.2 million.

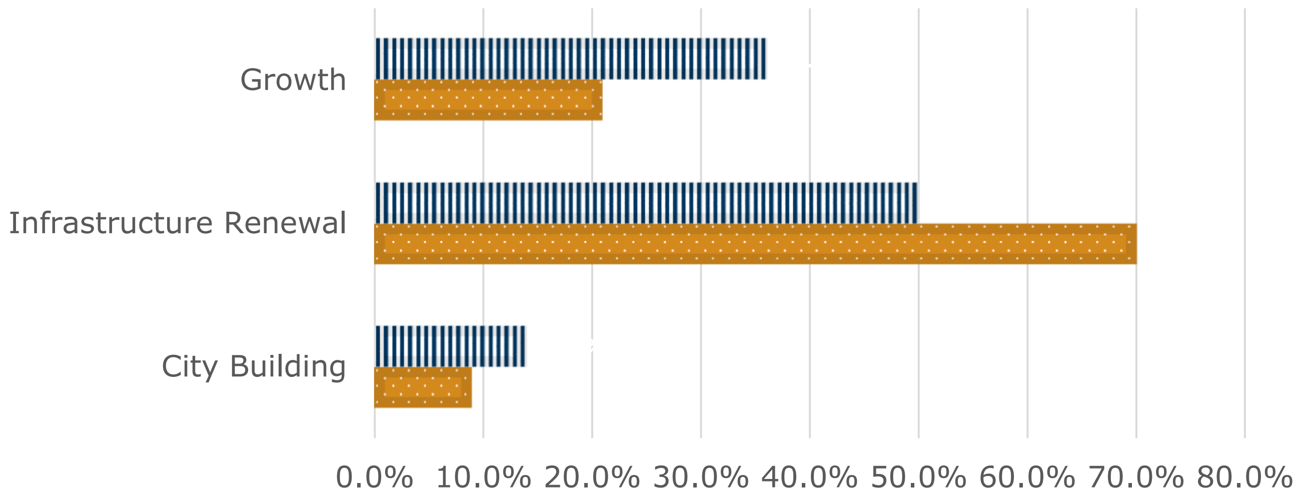
Investments in the 2023 capital budget can be grouped into five major themes: investments in infrastructure renewal to keep our assets in a state of good repair, investments in transit and active transportation, investments in water and wastewater treatment to keep Guelph's water clean and safe, investments in technology enhance customer service, and investment in environmental impact projects. Through the capital prioritization these themes have not changed however the level and timing of investment have been adjusted as follows:

1. Investments in infrastructure renewal to keep our assets in a state of good repair has increased overall, mainly due to additional investment in facility renewal, advancement of a fire truck replacement to accommodate longer ordering lead times, and the addition of a project for Police Service dispatch upgrades for Next Generation 911 requirements. Further, a capital project was added for the Elliott to align to the previously approved funding request. These increases are partially offset by the deferral of linear construction projects not expected to be completed due to staffing capacity.
2. Investment in transit and active transportation have been reduced to align projects with the staffing resources to execute them. This was also feasible as the timeline to expend funds from the Investing in Canada Infrastructure Program was extended.
3. Investments in water and wastewater treatment to keep Guelph's water clean and safe continue but have been adjusted to better align with the timing of when they will be executed.
4. Investments in technology to enhance the customer service experience and modernize City systems for more efficient operations includes new investment for utility billing software, electronic document management and

identity and access management, investment to complete prototyping for Next Generation 911 geographic system mapping standards in partnership with federal government and increased funds for the continued upgrading and implementation of the City's enterprise resource management systems inclusive of corporate maintenance management.
5. Investment in environmental impact projects did not change.

As part of the project level review, no operating impacts from capital were adjusted or deferred. Figure 2 provides a breakdown of capital plan by project types.

Figure 2 - 2023 capital plan by project type



	City Building	Infrastructure Renewal	Growth
2023 approved	14.0%	50.0%	36.0%
2023 update	9.0%	70.0%	21.0%

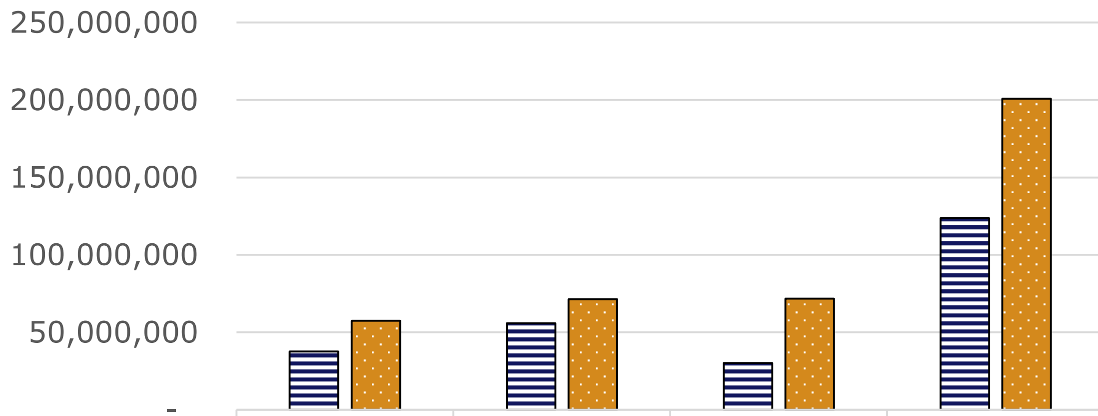
Staff will work to re-budget all projects that were deferred from 2022 and 2023 totaling $85.3 million in the City's 25-year capital plan as part of the 2024-2027 MYB process. This will require a detailed review of the current capital plan to align capacity constraints and the demands of growth.

It is important to note that while inflation is expected to impact the cost of construction of the South End Community Centre and Baker District, adjustments to these tier-one projects were not included in the capital prioritization exercise given the large budgets and the volatility we are seeing in the current market. As such, it would be prudent to evaluate any changes closer to the time of tender and they will be addressed through separate recommendations to Council if required, as updated estimates are received.

Capital Reserve Funds

The reduction of the approved 2023 budget has resulted in a short-term reduction in the use of reserve funds which will provide additional flexibility in the need to issue debt to support large-scale projects such as Baker District or FM Woods. However, projects deferred as part of the capital prioritization will need to be re-introduced into the 25-year capital plan beginning in 2024. Therefore, any increased reserve capacity does not represent permanent savings, as the capital projects that were deferred through the 2022 and 2023 prioritization exercise continue to be required. Reserve capacity will also be drawn upon to fund any adjustments required to the South End Community Centre and Baker District Redevelopment projects underway. Figure 3 shows the forecasted impact on 2023 reserve balances resulting from the capital prioritization.

Figure 31 - Reserve balances capital prioritization impact - 2023 balances (cumulative)



	Tax supported	Non tax supported	Obligatory	All reserves
2023 reserve forecast (MYB 2022)	37,580,817	55,901,100	30,154,779	123,636,696
2023 reserve forecast (MYB 2023)	57,536,418	71,414,871	71,819,556	200,770,846

Financial Implications

The 2023 budget update translates to an increase of 4.96 per cent in payments in lieu and property taxes to be levied, which is net of updated taxation assessment growth of 1.32 per cent. Of this, the total City department net levy investment is 3.25 per cent and includes the 2023 approved budget plus legislative changes, financial impacts approved by Council in-year, and the recommended investments and budget adjustments. The LBSS budget impact totals 1.71 per cent.

From a water, wastewater, stormwater rate perspective, this 2023 budget update does not require an adjustment to the previously approved 2023 rates, equivalent to 2.73 per cent over 2022. These rates remain competitive within the comparator municipal groups.

Consultations

Local Boards and Shared Services Agencies

Corporate Management Team

Attachments

Attachment-1 2023 Tax Levy and User Rate Update

Attachment-2 2023 Budget Confirmation and Capital Budget Prioritization Presentation

Departmental Approval

Karen Newland, Manager Finance Client Services and Budget

Report Author

Stephanie Devost, Senior Corporate Analyst

Patricia Zukowski, Senior Corporate Analyst

This report was approved by:

Shanna O'Dwyer
Acting General Manager Finance/City Treasurer
Corporate Services
519-821-1260 extension 2300
shanna.odwyer@guelph.ca

This report was recommended by:

Trevor Lee
Deputy Chief Administrative Officer
Corporate Services
519-822-1260 extension 2281
trevor.lee@guelph.ca